

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 00415 112334Z

64

ACTION COME-00

INFO OCT-01 EUR-25 ISO-00 EB-11 OMB-01 SCI-06 FEA-02

CIEP-02 INT-08 TRSE-00 STR-08 AGR-20 TAR-02 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 USIA-15 SAM-01 DRC-01 /165 W

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 2711

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E.O. 11652: N/A

TAGS: EIND, ETRD, CA

SUBJECT: SHORT SUPPLY PROBLEMS AND RESTRAINTS ON EXPORTS.

REF : A. STATE 23940

B. STATE 23965

C. STATE 22871

1. EMBASSY'S COMMERCIAL COUNSELOR HAS DISCUSSED SUBJECT WITH SEVERAL DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (ITC) OFFICIALS IN EXPORT AND IMPORT PERMITS DIVISION AND COMMODITY BRANCHES IN ORDER TO CHECK, UPDATE AND FOCUS OUR INFORMATION AND IMPRESSIONS, WHICH GLEANED FROM CANADIAN DAILY AND TRADE PRESS AND EMBASSY'S OPERATIONAL EXPERIENCE DURING THE PAST YEAR WITH THE FEW CANADIAN EXPORT CONTROLS EXERCISED FOR SHORT SUPPLY REASONS. THIS RESPONSE TO REFS A AND B SHOULD BE READ IN CONJUNCTION WITH EMBASSY'S FORTHCOMING TELEGRAM AND SUBSEQUENT AIRGRAM RESPONDING TO REF C.

2. ONLY SIX ITEMS ON ITC'S CURRENT EXPORT CONTROL LIST ARE THERE FOR SHORT SUPPLY REASONS:

(A) 1001 - PANCREAS GLANDS OF CATTLE AND CALVES. THESE ARE USED IN INSULIN PRODUCTION. NO RPT NO EXPORT PERMITS

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 00415 112334Z

CURRENTLY BEING ISSUED.

(B) 1003 - PURE-BRED CATTLE. EXPORT PERMITS ISSUED ONLY IF CERTAIN BIRTH REQUIREMENTS MET.

(C) 2001 - LOGS OF ALL SPECIES OF WOOD. EXPORT PERMITS BEING FREELY ISSUED.

(C) 2002 - PULPWOOD OF ALL SPECIES OF WOOD. EXPORT PERMITS BEING FREELY ISSUED.

(E) 5665 - SCRAP IRON AND STEEL. (U.S. DEPARTMENT OF COMMERCE THOROUGHLY FAMILIAR WITH NATURE AND EXTENT OF PRESENT ITC CONTROL.)

(F) 5666 - CANADIAN SILVER COIN OF 1968 OR EARLIER. SEE OTTAWA A-220 OF MAY 9, 1973.

3. EMBASSY SEES NO RPT NO INDICATION THAT EXPORTS OF OTHER BASIC INDUSTRIAL MATERIALS - WITH, OF COURSE, EXCEPTIONS OF GAS AND OIL, CONTROLLED BY NATIONAL ENERGY BOARD, ARE BEING DELIBERATELY REGULATED OR LIMITED BY CANADA. WITH RESPECT TO FERROUS SCRAP, TIGHTENING IN 1973 OF CANADIAN EXPORT CONTROLS WAS DIRECT RESULT OF AND NECESSITATED BY U.S. CONTROLS.

4. BASIC INDUSTRIAL AND BUILDING MATERIALS HAVE BEEN IN SHORT SUPPLY IN CANADA DURING THE PAST YEAR REFLECTING: (A) RAPID ECONOMIC GROWTH IN 1973 (7 PERCENT REAL GROWTH IN GNP); (B) CAPACITY OR NEAR-CAPACITY OUTPUT SINCE EARLY IN 1973 OF CANADIAN MANUFACTURING AND RESOURCE INDUSTRIES; AND (C) IMPACT ON CANADIAN RESOURCES OF EXTERNAL DEMAND, PRINCIPALLY FROM THE U.S., WHENCE IMPACT OF DEMAND EXACERBATED BY PRICE CONTROLS.

5. DURING PAST YEAR EMBASSY OFFICERS HAVE HEARD AND READ OF MATERIALS SHORTAGES PRACTICALLY ACROSS THE BOARD. SPECIFIC EXAMPLES ARE FERROUS SCRAP, CONSTRUCTION MATERIALS SUCH AS BRICKS, ROOFING SHINGLES, GYPSUM WALLBOARD, OTHER INSULATING MATERIALS, REINFORCING STEEL BARS AND STRUCTURAL STEEL, HIDES AND SKINS, PULP AND PAPER, ESPECIALLY NEWSPRINT, PLASTICS AND CHEMICALS, ZINC, WOODEN RAILROAD TIES AND UTILITY UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 00415 112334Z

POLES, HARDWOOD FOR FURNITURE INDUSTRY, FERTILIZERS, ETC. ACCORDING TO OUR ITC SOURCES, MANY OF THESE SHORTAGES HAVE ONLY BEEN SHORTAGES IN THE SENSE THAT CONSUMERS HAVE NOT BEEN ABLE TO GET INSTANT DELIVERY TO WHICH THEY HAD BEEN ACCUMSTOMED OR HAVE BEEN RELUCTANT TO MAKE FEASIBLE SUBSTITUTIONS, E.G., USING A DIFFERENT GRADE OF PRINTING PAPER. IT HAS USUALLY BEEN THE SMALLER, WEAKER FIRMS WHO HAVE BEEN THE MOST VOCAL IN COMPLAINING TO ITC AND IN SOME

CASES, SUCH AS THE INDEPENDENT PUBLISHERS ASSOCIATION, ASKING FOR GOVERNMENT PRICE CONTROLS AND EVEN EXPORT CONTROLS. IN PRESENT SITUATION PRODUCERS NATURALLY WILL TAKE CARE OF BIGGEST AND BEST CUSTOMERS; AND SMALLER, SPORADIC CUSTOMERS, WHO MOREOVER MIGHT BE LATER IN THEIR PAYMENTS, WOULD BE CONSIGNED TO END OF SUPPLY QUEUE. ITC OFFICIALS CITED EXAMPLES OF FURNITURE INDUSTRY, WHICH HAD BEEN ACCUSTOMED TO CARRYING ONLY A WEEK'S SUPPLY OF LUMBER, AND BUILDING CONTRACTORS, WHO TO AVOID STORAGE COSTS OR PILFERING AT CONSTRUCTION SITES, HAD FOLLOWED PRACTICE OF ORDERING, E.G., BRICKS FOR DELIVERY "TOMORROW". IN CURRENT CIRCUMSTANCES SUPPLIERS REQUIRING MORE NOTICE AND LONGER-TERM PURCHASE AGREEMENTS WITH PRICES SPECIFIED AS THOSE PREVAILING AT TIME OF SHIPMENT.

6. ACCORDING TO OUR ITC SOURCES, DEPARTMENT IS DEAD SET AGAINST PRICE AND EXPORT CONTROLS EXCEPT AS A LAST RESORT OR WHEN FORCES TO TAKE THE STEP BY DEVELOPMENTS SUCH AS U.S. FERROUS SCRAP CONTROLS OR EXCESSIVE AND UNUSUAL SHIPMENTS OF BEEF AND PORK TO U.S. WHEN GOVERNMENT PRICE FREEZE CREATED SHORTAGE THERE (AND US. PRICE CONTROLS NOT APPLIED TO IMPORTS). IN MANY CASES SUPPLY STRINGENCIES IN CANADA HAVE BEEN COMPOUNDED BY DISTRIBUTION AND SUPPLY-AFFECTING FACTORS SUPERIMPOSED ON GENERAL HIGH LEVEL OF DEMAND, E.G., STRIKES IN THE RAILROAD AND PULP AND PAPER INDUSTRIES AND INTERRUPTIONS OF PRODUCTION BY PLANT BREAKDOWNS OR ACCIDENTS WHILE PLANTS RUNNING FULL OUT.

7. INCASES WHERE ITC CONSIDERED SPECIFIC SITUATIONS OR COMPLAINTS JUSTIFIED OFFICIAL INTERVENTION, THIS HAS TAKEN THE FORM OF MORAL SUASION, EMBASSY IS INFORMED. ITC THUS HAS APPROACHED SOME PRODUCERS, E.G., ZINC, QUIETLY AND INFORMALLY AND IN KEEPING WITH GENERAL GOVERNMENTAL POLICY THAT DOMESTIC

UNCLASSIFIED

PAGE 04 OTTAWA 00415 112334Z

NEEDS OF MATERIALS IN SHORT SUPPLY SHOULD BE SATISFIED BEFORE EXPORT ORDERS ARE FILLED. IMPLICIT IN THIS APPROACH, OF COURSE, IS THE ABILITY OF GOC TO REQUIRE EXPORT LICENSING IF NECESSARY. AUTHORITY IS AVAILABLE IN EXPORT AND IMPORT PERMITS ACT OF 1954 AND CAN BE QUICKLY EXERCISED VIA ORDER IN COUNCIL, I.E., EXECUTIVE DECISION. (SHORT SUPPLY IS ONE OF ENABLING CRITERIA, BUT PRICE IS NOT RPT NOT AN ENABLING CRITERION UNDER THE ACT, OUR ITC INTERLOCUTORES STRESSED.)

8. ITC OFFICIALS STATED FINALLY WITH RESPECT TO BASIC INDUSTRIAL MATERIALS IN SHORT SUPPLY THAT DEPARTMENT'S POLICY, HANDED DOWN BY MINISTER GILLESPIE, IS THAT EVERYTHING POSSIBLE SHOULD BE DONE TO ACCOMMODATE U.S. CUSTOMERS AFTER DOMESTIC CANADIAN NEEDS HAVE BEEN MET.
JOHNSON

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